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SUBJECT: ISRAELI FM ON REVENUE TRANSFERS, MEETINGS IN CAIRO, AND OBJECTIVES FOR WASHINGTON VISIT

Classified By: Ambassador Richard H. Jones; Reasons 1.4 (B) and (D).

1. (C) Summary: During a February 2 meeting in Tel Aviv, FM Tzipi Livni told the Ambassador and DCM that the Israeli Cabinet will discuss revenue transfers to the PA on February 5, adding that she did not expect the issue to still be on the agenda when she meets the Secretary next week. Livni said that meetings in Cairo on February 1 left her with the impression that the Egyptians agree with Israeli views that Hamas must fill certain "preconditions" before forming a government. For her upcoming visit to Washington, she listed her three priorities as: 1) a discussion on the PA and Hamas; 2) consultations on the Iranian and Hizballah threats; and 3) obtaining U.S. financial assistance for the Negev and Galilee. She stressed that the assistance is politically important and necessary to ensure Israel's security. The Ambassador acknowledged receipt of Israeli concerns about Rafah and urged the GOI to revisit AMA issues (including operation of the Karni crossing) to review where progress might still be possible. He also discussed the benefits of a larger MFA role in Israel's export control system. MFA Director General Ron Prosor and Chief of Staff Yaki Dayan accompanied Livni. End summary.

Cabinet will Discuss Revenue Transfer on February 5

2. (S) The Ambassador stressed the significant role that Israeli revenue transfers could have in stabilizing the interim PA government. Livni said the issue will be addressed by the Israeli Cabinet on February 5. She asked that the USG avoid moves that could be misconstrued as undue pressure, because such actions would have repercussions in the Knesset electoral campaign. (Note: News articles in several papers the next day claimed that Livni was under pressure from the USG to transfer the revenues. End note). She added that her initial inclination had been to avoid any steps that could potentially help Hamas; i.e., "there was an earthquake and Israel can take its time." She acknowledged that once it became clear that the formation of a new government would not happen quickly, she also saw the logic of sustaining the PA until Hamas assumes power, provided the PA agrees to certain conditions on the use of funds. She refused to predict how the Cabinet would vote, but said she did not expect the issue to still be on the agenda when she meets the Secretary next week. (Note: PM Advisor Dov Weissglas told the Ambassador separately that there was an excellent chance the funds would be transferred to the PA early in the week of February 5. End note).

Cairo Meetings Focus on Conditions for Hamas

3. (C) Livni described her meetings in Cairo on February 1 as "very positive," saying that on the Hamas issue Israel and Egypt "have the same interests." In her view, EGIS Chief Omar Soliman had the strongest message on Hamas; he told the GOI that Hamas needs to fill certain "preconditions" before forming a government. FM Aboul Gheit preferred not to use that term, but Livni said she left Cairo with the impression that the GOE had a unified view on the conditionality issue. She described the Egyptians as "optimistic" that Hamas would accept such changes, but acknowledged that this may have been Cairo's attempt to "calm me down." When asked by the Ambassador whether the Egyptians had mentioned the views of other Arab states, Livni replied that "we are hearing positive noises from Jordan."

Livni's Washington Agenda and Request for USG Assistance

4. (C) Livni listed three priorities for her February 6-8 visit to Washington and New York: 1) dealing with the PA and Hamas; 2) countering threats from Iran and Hizballah; and 3) obtaining U.S. financial assistance for the Negev and Galilee. MFA Director General Prosor claimed that Iran is increasing pressure and funding for Hizballah attacks against northern Israel. He told the USG not to be surprised by Israeli counter measures, such as increased surveillance overflights.

5. (C) In Livni's view, the PLC elections had increased both

the threat against Israel and the urgency of the GOI's assistance request. She maintained that a positive response by Washington would be seen in Israel as support for disengagement, backing for recent moves against illegal outposts, and a message to settlers to re-focus their efforts inside the green line. She also said that USG assistance is necessary to stop smuggling of weapons and drugs, trafficking in persons, and infiltration by terrorists -- especially along the Egyptian border. Livni claimed that Egypt was not actively patrolling the area south of Kerem Shalom in the hope that the lack of order will lead to acceptance of an expanded Border Guard deployment.

16. (C) Livni said she intended to concentrate on proposals that would be acceptable to Washington. She requested advice on the level and form of assistance the USG would be willing to consider. Noting that a meeting to discuss the assistance proposal had been canceled by the Finance Ministry earlier in the week, the Ambassador pledged to pass on any GOI requests for review by Washington. He praised recent GOI moves to evacuate illegal outposts. MFA Director General Prosor said that he would ensure that the Finance Ministry contact the Embassy with details of the Israeli request. Chief of Staff Dayan expressed concern that the USG's supplemental might be sent to Congress in February without the Israeli request. The Ambassador urged the GOI not to overlook Bedouin interests in its plans for the Negev.

17. (C) Livni predicted that the Israeli-Palestinian conflict -- and not economic issues -- would determine the winner of the March 28 Knesset elections. She described the uncertain security situation as the "weak link" in Kadima's campaign. She suggested that Washington's initial response to the PLC elections had not reassured Israelis, although she called the President's February 1 remarks "wonderful."

Ambassador Urges Movement on AMA

18. (C) The Ambassador noted that the Quartet had insisted that any PA government reaffirm previous agreements, including the Agreement on Movement and Access, and said the USG has received PM Foreign Affairs Advisor Shalom Tourgeman's February 2 letter listing GOI concerns with the Rafah crossing. Livni said that "Rafah is not working as it should be." She praised, however, the Egyptian Border Guards along the Philadelphi corridor, saying "they are doing their job ... we see their effect." The Ambassador urged the GOI to revisit AMA issues and look for areas where progress might still be possible, especially Karni.

Finding a Role for the MFA in Israeli Export Controls

19. (C) Following up on a topic from the January 11 Joint Political-Military Group (JPMG), the Ambassador suggested that a greater MFA role in Israel's export controls system would increase transparency and help address past concerns. Livni agreed and suggested we raise the issue directly with Defense Minister Shaul Mofaz and/or Alternate Prime Minister Ehud Olmert to avoid the appearance of a power grab by the MFA. She noted that this was one of the first issues Mofaz raised with her after she became foreign minister.

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JONES